

Excise and GST/HST News

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Table of Contents

Bill C-33 and Bill C-43 receive Royal Assent	1
10% tax on insurance premiums (other than marine)	2
Procurement cards and claiming input tax credits	2
Third party authorization for excise and GST/HST rulings	4
GST/HST content on the CRA Web site	5
File your GST/HST return electronically	6
Prescribed rates of interest	7
What's new in publications	8

Bill C-33 and Bill C-43 receive Royal Assent

Both Bill C-33 (the Budget Implementation Act, 2004, No. 2) and Bill C-43 (the Budget Implementation Act, 2005) have received Royal Assent.

Bill C-33, a second Act to implement certain provisions of the federal budget tabled in Parliament on March 23, 2004 received Royal Assent on May 13, 2005. Bill C-33 includes measures to reduce the air travellers security charge and amendments to the *First Nations Goods and Services Tax Act* to facilitate the establishment of taxation arrangements between the Government of Quebec and interested Indian bands situated in Quebec.

Bill C-43, an Act to implement certain provisions of the federal budget tabled in Parliament on February 23, 2005, received Royal Assent on June 29, 2005. Bill C-43 includes measures relating to directors' liability for GST/HST net refunds, the confirmation of a person's GST/HST registration status, the excise tax on jewellery, a further rate reduction for the air travellers security charge as well as the extension of the 83% health care rebate to eligible charities and non-profit health care organizations that provide health care services similar to those traditionally performed in hospitals. A summary of these measures is provided in the Spring 2005 edition of the *Excise and GST/HST News* (No. 56).

Please refer to the Department of Finance Web site at the following addresses for more information on Bill C-33 (www.fin.gc.ca/news04/04-075e.html) and Bill C-43 (www.fin.gc.ca/news05/2005-045e.html).

More Ways to Serve You!
Pour vous servir encore mieux!

La version française de ce bulletin est intitulée
Nouvelles de l'accise et de la TPS/TVH.



Canada Revenue
Agency

Agence du revenu
du Canada

Canada

10% tax on insurance premiums (other than marine)

Every person resident in Canada, including a corporation, that places insurance on risks in this country with an unauthorized insurer, or with an authorized insurer through a broker or agent outside Canada, is required to file a form B243, *Excise Tax Return – Insured* and pay a 10% tax on the net premiums. If a broker/agent has paid the tax on behalf of the insured person, form B243 must still be completed and filed by the insured person. The 10% tax is due and payable on or before April 30 of each year with respect to contracts of insurance entered into or renewed during the immediately preceding calendar year.

Contracts of life insurance, personal accident insurance, sickness insurance and insurance against marine risks are not subject to the 10% tax. Form B243 is not required to be filed where such insurance is obtained.

Where a contract of insurance (including insurance against nuclear risk) would normally be subject to the 10% tax, but is not available in Canada, an application for an exemption may be made using form E638, *Application for Exemption From Premium Taxes Imposed Under the Excise Tax Act – Part I* outlining the type of insurance purchased and the reasons why it could not be obtained in Canada. This form must be accompanied by a copy of the insurance policy and five letters of declination from authorized insurers.

The only reasons the CRA considers acceptable for purposes of this exemption are:

- the particular **class** of insurance was not available from authorized insurers; or
- the lack of market **capacity** at that particular time for that class of insurance.

Persons subject to the 10% tax on insurance premiums should be aware that if they refuse/neglect to file form B243 on time, they could be liable for a penalty equal to 5% of the unpaid tax at the expiration of the time for filing their return. Please note that the Voluntary Disclosure Program (VDP) allows, under certain circumstances, persons to correct inaccurate or incomplete information or disclose material they did not report during previous dealings with the Canada Revenue Agency, without penalty or prosecution.

For more information on the 10% tax on insurance premiums, please see ETSL36R - Basic Facts - Insurance Premiums Other Than Marine.

Procurement cards and claiming input tax credits

Most registrants acquiring goods and services with procurement cards cannot normally satisfy the input tax credit documentary requirements for GST/HST purposes. Generally, the statements provided by the procurement card issuers to the registrants as supporting documentation for the purchases provide only minimal information. For example, some reports do not indicate the actual amount of tax paid or payable for the supplies. In addition, many reports do not include a description of the type of goods and services acquired, nor do they include the merchant's registration number. In cases where the documentary requirements of the *Excise Tax Act* (the Act) are not satisfied, input tax credits cannot be claimed until the registrant obtains additional supporting documentation to establish the particulars of the purchases, or obtains an exemption from the documentary requirements.

To address this issue, the CRA has published an audit policy, Notice 199, *Procurement Cards – Documentary requirements for claiming input tax credits*, which discusses the treatment of procurement card purchases, the claiming of related input tax credits, and exemption from documentary requirements for GST/HST purposes. Provided certain conditions are met, eligible registrants may apply to the CRA to use ratios to claim input tax credits for purchases under \$1,000 made using procurement cards.

This policy only applies to registrants who acquire goods and services for use all or substantially all in commercial activities. As a result, entities such as municipalities, universities, schools, hospitals and financial institutions are not eligible to use the policy on procurement cards. Although the activities of provincial gaming authorities, as defined in the *Games of Chance (GST/HST) Regulations*, are all or substantially all commercial activities within the meaning of the Act, they do not claim input tax credits for their purchases related to gaming supplies. The net tax of provincial gaming authorities is determined in accordance with the special rules under these regulations. As a result, provincial gaming authorities are excluded from the application of the policy on procurement cards as well.

Registrants must apply to the Compliance Programs Branch for permission to use this policy. Persons wishing to apply for permission to use this policy or who have questions on how this policy could affect their business transactions should write to the Manager, Specialty Audit, Audit Directorate, Compliance Programs Branch, Canada Revenue Agency, 112 Kent Street, 8th floor, Place de Ville, Tower B, Ottawa, Ontario K1A 0L5.

The registrant must provide the following information with their request for exemption:

- name of the registrant, Business Number, name and telephone number of the contact person;
- a description of the registrant's activities specifying any exempt activities of the registrant, and indicating the extent of such activities;
- written confirmation from the registrant's external auditor that their internal controls for procurement cards purchases are reliable;
- description of the registrant's use of procurement cards, such as the number of procurement cards in use, the average amount of purchases made with procurement cards, and the type of purchases made with procurement cards;
- analysis of the sample data to determine the eligible purchases' ratio and the taxable purchases' ratio in accordance with the method outlined in Notice 199; and
- electronic data showing purchases made with procurement cards for the year preceding the request, for a sample period, to be submitted in Microsoft Excel format. The sample must include complete data for four full months of transactions, one month of each quarter, consistently selected. All transactions for these periods must be included.

Once the registrant has met all the conditions and the CRA has verified the sampling results and approved the eligible purchases' ratio and the taxable purchases' ratio, as described in the notice, the registrant will be allowed to claim input tax credits at the rate of 7/107 (or 15/115 for participating provinces) of the total amount of purchases appearing on the card issuers' report, to the extent of the ratios calculated in accordance with the audit policy on procurement cards. The total amount of purchases on the card issuer's report must include taxes.

The ratios will be valid for a period of five years. However, the exemption can be revoked if the registrant is not compliant with all the GST/HST provisions under the Act. The CRA can also reassess at a later date if the ratios are found to be applied incorrectly or not updated for significant changes during the period.

The exemption for purchases made using procurement cards will only apply provided **all** the conditions under this policy are met and permission has been granted to use this policy. Please refer to the CRA Notice 199, *Procurement Cards – Documentary requirements for claiming input tax credits* for a complete discussion of these conditions.

Third party authorization for excise and GST/HST rulings

Sometimes a third party representative (i.e., a tax professional, an accountant, a bookkeeper, or a lawyer) will request a ruling or interpretation on behalf of a client. In such cases, the representative should provide all relevant documentation with their requests for rulings or interpretations as well as a third party authorization letter. Complete documentation ensures that the CRA can answer the request in a timely manner and that the client's specific situation is addressed in confidentiality.

A third party authorization letter should include the following information:

- the name and business number of the client;
- the signature of the client or authorized individual;
- the name, address, and telephone number of the third party (If the third party is an individual in a firm, provide both the name of the individual and that of the firm);
- the letter should be addressed to the office from which you are requesting a ruling or interpretation;
- specify the tax or duty to which the authorization applies (e.g., the GST/HST, excise duty or excise tax); and
- indicate if applicable, the specific period of time (e.g., a GST/HST reporting period(s), fiscal year, a series of excise duty fiscal months, or all periods until revoked) or a specific transaction or series of transactions for which the authorization is to apply.

If you wish to **revoke** a third party authorization, the letter should contain all of the information provided with the initial request for authorization.

Sample third party authorization letter

I hereby authorize officials of the Canada Revenue Agency to provide:

with confidential information about my operation for purposes of my request for a ruling or interpretation.

This authorization applies to operations relating to my _____ account and applies from _____ to _____.

Name: _____

Business Number: _____

GST/HST content on the CRA Web site

We are continuing to improve our Web site to better meet the needs of our clients. In response to client demand, we have just restructured and expanded the GST/HST content. The new design of the menus targets common client groups such as sole proprietors, partnerships, corporations, the construction industry, public service bodies, non-resident businesses, financial institutions, charities and governments.

GST/HST information is broken down under topics that are in line with clients' needs such as registering or de-registering, making changes to an account, responsibilities, input tax credits, taxable or exempt supplies, returns, payments and instalments, rebates, imports and exports, buying and selling a business, rulings and interpretations, objections, appeals and access to information.

The menus are also arranged to provide information for our clients who are not registrants, such as rebate claimants, individuals, Indians, Indian bands and band-empowered entities, foreign representatives and diplomatic missions, and visitors to Canada.

To look at these improvements go to the CRA home page at www.cra-arc.gc.ca and click "GST/HST" under the "Business" menu.

If you have any suggestions for additions or improvement that would help the CRA further improve this GST/HST content, send an email to: comments@smtp1.ccra-adrc.gc.ca

File your GST/HST return electronically

The CRA now offers three methods to electronically file your GST/HST return: GST/HST NETFILE, GST/HST TELEFILE, and GST/HST-EDI. These options can help you file your return quickly, easily and securely over the Internet or by using a touch-tone phone.

You may file your GST/HST return electronically providing you are filing a return with a nil balance, you are expecting a refund of \$10,000 or less, there is no amount entered on line 111, you are not applying for a rebate and the pre-printed information on your personalized return is correct. It is possible to make the whole transaction a paperless one by signing up for GST/HST direct deposit using Form GST469, *Direct Deposit Request*. Your refund will be deposited directly into your account at your financial institution.

If an access code is printed on your personalized GST/HST return, you are invited to use GST/HST NETFILE or GST/HST TELEFILE. Have your completed working copy of your return at hand and access our GST/HST NETFILE Web site (www.cra.gc.ca/gsthst-netfile) or call 1-800-959-2038 for GST/HST TELEFILE. At the end of your filing session, you will receive a confirmation number as proof that we have received your return.

GST/HST NETFILE and GST/HST TELEFILE are available across Canada Monday to Friday from 7:00 a.m. to 11:00 p.m., eastern time and Saturday from 7:00 a.m. to 8:00 p.m., eastern time. These services are not available on Sunday or on statutory holidays.

Our third electronic filing option, GST/HST-EDI, allows you to electronically file both your return and payment (if applicable) through a participating Canadian financial institution. To find out if your financial institution offers this service, contact your local branch or visit our GST/HST-EDI Web site at: www.cra-arc.gc.ca/eservices/gsthst-edi

For complete details on filing your GST/HST return electronically, visit our Web site at: www.cra-arc.gc.ca/eservices/tax/business

Prescribed rates of interest

The prescribed annual rate of interest in effect from October 1, 2005 to December 31, 2005, with respect to the GST/HST and the air travellers security charge (ATSC) is set at 2.3804% . Interest and penalty compound daily. To calculate interest, divide the annual rate by 365 (366 in a leap year) and apply it daily to the previous day's compound balance.

The prescribed annual rate of interest in effect from October 1, 2005 to December 31, 2005, with respect to amounts of income tax, excise tax and excise duty (except excise duty on beer) payable to the Minister (i.e., arrears and instalment payments) is established at 7%. The prescribed interest rate on amounts owed by the Minister (i.e., refunds) is established at 5%. These rates compound daily.

The prescribed annual rate of interest respecting excise duty on beer accounts is set at 5% for the period October 1, 2005 to December 31, 2005. Penalty compounds monthly and interest compounds daily.

Period	GST/HST ATSC (per annum)		Income Tax, Excise Tax, Excise Duty (wine, spirits, tobacco)		Excise Duty (beer)	
	Interest	Penalty	Refund Interest	Arrears and Instalment Interest	Interest	Penalty
2005						
October 1 – December 31	2.3804 %	6.0 %	5.0 %	7.0 %	5.0 %	6.0 %
July 1 – September 30	2.3804 %	6.0 %	5.0 %	7.0 %	5.0 %	6.0 %
April 1 – June 30	2.4066 %	6.0 %	5.0 %	7.0 %	5.0 %	6.0 %
January 1 – March 31	2.4333 %	6.0 %	5.0 %	7.0 %	5.0 %	6.0 %

Prescribed interest rates are adjusted every calendar quarter.

Rates of interest for previous periods are available on the CRA Web site.

What's new in publications***GST/HST Guides***

RC 4082 GST/HST Information for Charities (revised)

GST/HST Policy Statements

- P-245 Determination of 'activities engaged in by the person in the course of operating a public hospital' for purposes of the 83% public service body rebate for hospital authorities
- P-246 Remote stores and other off-reserve stores with significant sales to Indians, Indian bands and band-empowered entities

GST/HST Technical Information Bulletins

B-039R2 GST/HST administrative policy - Application of the GST/HST to Indians (revised)

Excise Duty Memoranda

EDM 2.2.4 Approved Financial Institutions and Acceptable Bonding Companies (revised)

All GST/HST, Excise Duty, and Excise Taxes and Special Levies publications can be found on the CRA Web site at: www.cra-arc.gc.ca/tax/technical/menu-e.html

GST/HST Enquiries

To make enquiries regarding your GST/HST account, call Business Enquiries at 1-800-959-5525

To make enquiries regarding the status of specific GST/HST domestic rebate claims, call
1-800-565-9353

To make enquiries regarding the status of visitor rebate claims, call 1-800-668-4748

To obtain copies of forms and publications, call 1-800-959-2221

If you are in Quebec please call the following toll-free number:
1-800-567-4692 (Revenu Québec)

The *Excise and GST/HST News* is published quarterly and highlights recent developments in the administration of the goods and services tax (GST) and harmonized sales tax (HST) as well as excise taxes and duties. This publication is provided for information purposes only and does not replace the law, either enacted or proposed. For further information on any of the articles contained in this newsletter, contact your nearest Canada Revenue Agency (CRA) tax services office or call Business Enquiries at 1-800-959-5525. Comments or suggestions about the newsletter should be sent to the Editor, *Excise and GST/HST News*, Policy and Planning Branch, CRA, Ottawa, Ontario K1A 0L5. ISSN 1183-689X